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PUBLIC VERSION

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

To the notifying party

Subject: **Case M.8721 - OWENS CORNING / PAROC**
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004[1] and Article 57 of the Agreement on the European Economic Area[2]

Dear Sir or Madam,

(1) On 15 December 2017, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Owens Corning Finland Oy, a subsidiary of Owens Corning ("Owens Corning", United States), acquires sole control of the Paroc Group ("Paroc", Finland) by acquiring all shares of Parry 1 Holding AB, its parent company.[3] Owens Corning is designed hereinafter as "the notifying party". Owens Corning and Paroc are designated hereinafter as the "the parties".

1 OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this Decision.

2 OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').

3 Publication in the Official Journal of the European Union No C444, 23.12.2017, p. 11.

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1. THE PARTIES

(2) Owens Corning is active worldwide in the development, manufacture and sale of roofing, insulation and glass fibre composites.

(3) Paroc is active in the production and supply of mineral wool insulation materials for building and technical applications. More specifically, Paroc manufactures mineral wool building insulation for thermal, fire and acoustic applications in residential and commercial construction. It also manufactures mineral wool technical insulation for heating, ventilation, and air conditioning systems; industrial processes; and the marine, offshore and original equipment manufacturing industries. Paroc is currently controlled by the CVC Group, an investment fund[4].

2. THE OPERATION AND THE CONCENTRATION

(4) Pursuant to a Share Sale and Purchase Agreement signed on 27 October 2017, Owens Corning will indirectly acquire all the shares in and thus sole control over Paroc through its subsidiary Owens Corning Finland Oy. Hence, the proposed transaction qualifies as a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

3. EU DIMENSION

(5) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million[5] (Owens Corning: EUR […], Paroc: EUR […]). Each of them has an EU-wide turnover in excess of EUR 250 million (Owens Corning: EUR […], Paroc: EUR [...]), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has an EU dimension.

4. COMPETITIVE ASSESSMENT

4.1. Introduction

(6) The proposed transaction gives rise to one potential horizontal overlap, namely as regards Paroc's mineral wool insulation products and Owens Corning's cellular glass insulation product. Furthermore, there is one vertical link with Owens Corning supplying glass fibre veil to Paroc, which Paroc uses in acoustic ceiling products.

4 CVC Group acquired control of Paroc in 2015. This transaction was approved by the European Commission in Case No COMP/M.7457 – *CVC/Paroc*.

5 Turnover calculated in accordance with Article 5 of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C 95, 16.4.2008, p. 1).

4.2. Market definitions

4.2.1. Product market: Mineral wool and cellular glass

(7) Insulation products reduce the thermal and acoustic exchange through a wall, roof or a duct on which they are placed. The Commission has previously found that insulation products constitute a separate market from other building products.[6]

(8) There are different materials used for insulation products. The Commission has in past cases considered a possible sub-segmentation of insulation products by insulation material, between (a) mineral wools (stone or glass wools); and (b) foams (expanded polystyrene (EPS), extruded polystyrene or polyurethane).[7]

(9) Furthermore, there are different general applications for insulation products. The Commission has in the past considered segmenting the relevant market into building insulation (hereinafter referred to as "BI") and technical insulation (hereinafter referred to as "TI"). While it has previously left open the relevant market, it indicated in *CVC/Paroc* that *"it is likely that mineral wool BI and mineral wool TI constitute distinct product markets"*.[8]

(10) In past cases, the Commission did not further sub-divide the market for building insulation based on specific applications for which these products are used (such as loft pitched roof, prefabricated roof, floating floor, ceilings, etc.) due to supply-side substitutability[9] and did not sub-divide the technical insulation products further by reference to individual product types.

(11) Cellular glass, as produced by Owens Corning, has not been considered in previous cases. Cellular glass is a specialty insulation material, with a high degree of compressive strength characterised by high resistance. Cellular glass is fully water resistant and will not burn. Cellular glass is more expensive than mineral wool (the price of cellular glass is around 400 USD per cubic meter, compared to around USD 250 for mineral wool).

(12) The notifying party submits that for the following reasons, cellular glass and mineral wool do not fall into the same product market: they serve different end applications; use substantially different raw materials and production equipment in their manufacture; and are not generally substitutable given their different product performance and characteristics, as well as end uses.

(13) The Commission's investigation in this case confirms that the market for insulation products should likely be segmented into building insulation and technical insulation products due to the different customer groups served, different relative strength of suppliers and different products used. Nevertheless, this segmentation can be left open in this case as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under the alternative plausible market definitions.

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6 M.7457 – CVC/Paroc, para. 17-18; M.3407 – Saint Gobain/Dahl, paragraphs 8 and 9; M.1974 – Compagnie de Saint-Gobain/Raab Karcher, paragraph 9; and M.1873 – Compagnie de Saint-Gobain/Meyer International, paragraphs 9 and 10. See also M.6871 – Mohawk Industries/Spano Invest, paragraphs 28 and 29.

7 M.3407 – *Saint Gobain/Dahl*, para 10; M.3943 – *Saint Gobain/BPB*, para. 29.

8 M.7457 – *CVC/Paroc*, para. 18.

9 M.3943 – *Saint Gobain/Dahl*, para. 25-28.

(14) The results of the Commission's investigation indicate further that cellular glass and mineral wool are not close substitutes and may therefore not fall into the same relevant product market. On the one hand, some market participants suggested that all kinds of insulation material compete as they serve the same purpose, that is to say to insulate buildings, in particular when taking into account the full cost-of-ownership and not only the sales price of the products. On the other hand, the majority of market participants working with Paroc's products never or very rarely used cellular glass, indicating that the substitutability between the two products is limited. Nevertheless, it is not necessary to conclude on the exact product market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under the alternative plausible market definitions. Therefore, the product market definition can be left open in this Decision.

4.2.2. Geographic market

(15) Previous cases have found the geographic market for the manufacture of insulation products to be (i) at least national; (ii) wider than national (i.e. regional to the Nordics or the Baltics); and (iii) possibly EEA-wide. The Commission has ultimately left the precise definition of the relevant geographic markets open.[10] The notifying party submits that the same approach can be taken in this case.

(16) Among the views expressed by customers and competitors in the market investigation, some consider that the market tends to be national, whereas others point to the cross-border supply in the EEA of insulation material produced in countries in geographic proximity. However, it is not necessary to conclude on the exact geographic market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under the alternative plausible geographic market definitions.

4.2.3. Upstream market: Glass fibre veil

(a) Product market

(17) Veils are thin sheets of glass fibre strands bound together by synthetic resin binders used at the outermost layer of a composite in order to improve surface characteristics. They can be wet-processed from wet use chopped strands in a process very similar to paper manufacturing or dry processed from long fibres that are produced in a dedicated (textile) furnace. Wet- and dry processed veils have different performance characteristics. However, for some end uses such as asphalt, foam panels, plastic reinforcement mats and bitumen waterproofing, both wet- and dry produced veils are suitable.[11]

(18) Veils are used in a variety of end-use applications, including the production of mineral wool insulation and ceiling insulation products.

(19) As regards a potential distinction between wet- and dry-processed veil, the Commission has previously considered that for some end applications there is a certain degree of substitution but did not, however, ultimately conclude on the

10 M.7457 – *CVC/Paroc*, para. 28.

11 M.4828 – *Owens Corning/Saint Gobain Vetrotex*, paras. 41-43.

market definition.[12] As regards the vertical link with suspended acoustic applications assessed in this case, dry-processed veils are not generally suitable for applications that require a homogenous fibre surface, such as suspended acoustic applications. Therefore, the vertical link in this case is limited to the potential sub-market for wet-processed veil.

(20) Furthermore, according to some market participants, a distinction can be made between veil used for front facers and back facers in insulation applications. The parties consider that this distinction would be artificial because the ultimate use of the product depends on each customer's particular preferences. In particular, Owens Corning does not control the end use of the facers that it sells to customers who, according to the parties, can partially substitute back facers for front facers. However, it is not necessary to conclude on the exact product market definition as the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market under the alternative plausible market definitions. Therefore, the product market definition can be left open for the purpose of this Decision.

(b) Geographic market

(21) The Commission has previously defined the geographically relevant market for glass fibre products as EEA-wide[13], and the market for veil as European[14] (EEA Member States as well as Serbia, Montenegro, and Turkey). The notifying party submits that the geographically relevant market is at least EEA-wide, but that in any event, the market definition can be left open. Against that background, the Commission will conservatively assess the market for veil as EEA-wide in this Decision.

4.2.4. Downstream market: suspended ceiling acoustic tiles

(22) Veils are used as an input in different BI and TI mineral wool products. The market definitions for BI and TI mineral wool products are set out in paragraphs (7) to (16) above. Paroc uses veils produced by Owens Corning specifically for the production of suspended acoustic ceiling tiles which are a type of acoustic insulation and BI product. Ultimately, there is no need for the Commission to conclude on the market definition of acoustic insulation products, in particular suspended ceiling acoustic tiles. The proposed transaction does not give rise to serious doubts as to its compatibility with the internal market on a narrowly defined market for suspended acoustic tiles at the EEA and national level where the vertical link is most pronounced.

4.3. Competitive assessment

4.3.1. Horizontal overlaps – BI and TI (mineral wool and cellular glass)

(23) There are limited overlaps between the parties' activities in the sale of BI and TI materials.

12 M.4828 – *Owens Corning/Saint Gobain Vetrotex*, para. 45.

13 M.3064 – *Ahlström Capital/Capman/Nordkalk*, para. 32.

14 M.4828 – *Owens Corning/Saint Gobain Vetrotex*, para. 56.

4.3.1.1. Assessment of horizontal overlaps in insulation materials

(24) Paroc does not produce foams or cellular glass; it is active only in the production of mineral wool insulation. Within the EEA, Owens Corning manufactures and supplies only cellular glass insulation products, but no mineral wool or foam insulation products, and currently has no plans to extend its activities into other types of insulation materials in the EEA. Therefore, if the market is sub-segmented by insulation material, there is no overlap between the parties' activities.

(25) If a wider market including all insulation materials is defined:

a. The overlaps in BI are minimal. Owens Corning sells low volumes of cellular glass for use in BI. The Parties' combined market share in the EEA is less than [5-10]% with an increment due to Owens Corning of [0-5]%. The combined national market shares in the affected markets reach [20-30]% in Sweden, [20-30]% in Finland, [20-30]% in Lithuania and [20-30]% in Estonia and Latvia (leading to combined market shares in the Baltics of [20-30]% and in the Nordic countries of [10-20]%). However, the market shares of Owens Corning do not exceed [0-5]% in any of the national EEA markets and the increment in market shares is therefore negligible.

b. The overlaps in TI are limited. The Parties' combined market share in the EEA is [20-30]% with an increment due to Owens Corning of [5-10]%. However, due to the different geographic focus of their activities, there are only a limited number of affected markets at the national level: Paroc's market shares reach [60-70]% in both Estonia and Finland, [40-50]% in Latvia and [20-30]% in Lithuania (leading to a market share in the Baltics of [40-50]% and in the Nordic countries of [30-40]%). However, the increment due to Owens Corning is at most [0-5]% in each of those national markets. The increment in market shares at the EEA level and in those countries is therefore minimal. The only other nationally affected market is Sweden with Paroc's market share at [40-50]% combined with a [5-10]% market share of Owens Corning, totalling to [50-60]%.

(26) Further, the results of the investigation confirmed for all affected markets, including Sweden, that cellular glass and mineral wool are not close substitutes as set out in paragraph (14), that Owens Corning is a small supplier, and that there are a number of alternative suppliers for insulation materials, which include mainly Rockwool, Isover/Saint-Gobain and Knauf. Moreover, none of the customers and competitors who replied to the Commission's investigation expected any impact of the proposed transaction on their business due to the overlap of the Parties' activities in insulation materials, and no competition concerns were raised in this regard, including for the Swedish market.

4.3.1.2. Conclusion on horizontal overlaps

(27) In light of the considerations in recitals (23) to (26), the Commission concludes that the proposed transaction does not give rise to serious doubts about its compatibility with the internal market due to horizontal effects in insulation materials.

4.3.2. Vertical relationships – veil / mineral wool BI (acoustic ceilings)

(28) The proposed transaction leads to a limited vertical link between upstream veil products where Owens Corning is active and downstream insulation products where both Paroc and Owens Corning are active. Specifically, Paroc purchases veil mainly for use in BI materials ([90-100]% of its veil purchases, equivalent to EUR […]) and within the portfolio of BI materials mainly for use in acoustic ceiling products ([40-50]% of its veil purchases for BI, equivalent to EUR […] million). Acoustic ceilings are part of the BI mineral wool business of Paroc and represented around EUR […]and [5-10]% of Paroc's sales in 2016.

(29) This Decision will focus on the vertical links between veil upstream and BI products downstream (see paragraphs (30) to (45)) since the potential vertical link in TI is minimal. Paroc purchased only a value of EUR […] of veil for use in TI in 2016. Products using veil thus play an immaterial role in Paroc's TI product portfolio. As a result, Paroc is an insignificant customer of veil for use in TI in the EEA, making customer foreclosure concerns highly unlikely. Furthermore, due to the minimal significance for its product portfolio, Paroc would not be able to benefit from foreclosing access to veil used in TI to its competitors, making potential input foreclosure concerns highly unlikely.

4.3.2.1. Downstream markets: acoustic ceilings

(30) In a potential market for BI products including all insulation materials, Paroc's market share does not exceed [30-40]% at the EEA level or in any of the national or regional markets. In a narrower market for BI mineral wool products, Paroc's market share exceeds [30-40]% in Lithuania at [40-50]%, Finland at [40-50]%, Sweden at [30-40]%, Latvia at [30-40]% and Estonia at [30-40]% (leading to a market share in the Baltics of [40-50]% and in the Nordic countries of [20-30]%).

(31) In the narrowest plausible market which has been identified by market participants as a potential area of concern in the Commission's market investigation, a potential downstream market for acoustic suspended ceiling products, Paroc’s market share reaches [20-30]% in Finland, [10-20]% in Sweden, [10-20]% in Norway and [5-10]% in Denmark, according to the parties, while its EEA market share is [5-10]%Paroc's main competitors in acoustic suspended ceiling products are market leaders Isover/Saint-Gobain with market shares of [40-50]-[50-60]% and Rockwool with market shares of [10-20]-[40-50]% in those markets. Competitor Saint-Gobain is vertically integrated and thus produces both veil upstream and acoustic ceiling products and other BI products downstream.

4.3.2.2. Upstream markets: veil

(32) The merchant market share of Owens Corning in veil in the EEA amounts to [20-30]%. The largest competitor is market leader Johns Manville with [30-40]% followed by Saint-Gobain at [10-20]% and Ahlstrom at [10-20]%. Considering only wet-processed veil, Owens Corning's market share is [20-30]%. Considering only veil sold for suspended ceiling applications, Owens Corning's market share is [70-80]% with competitors Johns Manville and Ahlstrom accounting for [20-30]% and [5-10]% respectively.

4.3.2.3. Customer foreclosure assessment

(33) The Commission's assessment of potential customer foreclosure will focus on the narrow vertical link between veil and acoustic ceiling products as this is the only area highlighted as a potential concern by market participants in the Commission's market investigation. As regards the wider markets for BI (mineral wool) products in general, the market investigation confirmed that there are many other customers in the EEA that Paroc's purchasing share in the EEA is low and that veil producers are not concerned about losing Paroc as a potential customer.

(34) As regards potential customer foreclosure concerns regarding Paroc's activities in acoustic ceiling products specifically, Paroc already purchases parts of its total veil requirements across all insulation products from Owens Corning (for an amount of EUR […] in 2016). [Information on Paroc´s purchases from other companies] (for an amount of EUR […] in 2016), which limits the potential scope of customer foreclosure concerns since the other veil suppliers already do not rely on Paroc's purchases.

(35) Moreover, veil is used for many end uses other than acoustic ceilings, with roofing being the most important end use. Insulation and ceiling represent only 27% of the end-use of veil sales in the EEA, meaning that at least 73% of the market demand for veil will not be significantly affected by the proposed transaction. In line with that and given that Paroc's activities are concentrated on northern Europe, Paroc has a limited purchasing share of [0-5]% for all veil sold in the EEA and of [0-5]% for all veil sold in the EEA for suspended acoustic applications.

(36) With respect to […] in particular, Paroc estimates that its purchases from […] of […] m^2 and EUR […] represented approximately [0-5]% of […] veil sales volumes and [0-5]% of […] veil sales value in the EEA in 2016. Accordingly, […] would risk losing less than [0-10]% of its current veil sales in the EEA if the Parties implemented a customer foreclosure strategy after the Transaction. Such limited potential sales loss makes any effects of a potential customer foreclosure strategy unlikely, including in terms of effects on R&D spending.

(37) Furthermore, because of qualification requirements, Paroc could only switch to using Owens Corning’s veil in [0 to 3years]. Moreover, Paroc has also explained that […].

(38) In light of the results of the market investigation and the evidence available, the Commission concludes that the proposed transaction would not give rise to competition concerns related to customer foreclosure.

4.3.2.4. Input foreclosure assessment

(39) The Commission's assessment of potential input foreclosure will likewise focus on the narrow vertical link between veil and acoustic ceiling products as this is the only area highlighted as a potential concern by market participants in the Commission's market investigation. As regards the wider markets for BI (mineral wool) products in general, the market investigation confirmed that there are a sufficient number of alternative veil suppliers (as reflected in Owens Corning's moderate market share of [20-30]%) and that BI competitors are not concerned about losing Owens Corning as a potential supplier.

(40) As regards potential input foreclosure concerns regarding Paroc's activities in acoustic ceiling products specifically, Owens Corning supplies veil to Paroc's competitors in acoustic ceilings, including in particular to Rockwool and Isover/Saint-Gobain.

(41) The notifying party submits that Owens Corning's main competitors (Johns Manville, Saint-Gobain and Ahlstrom) all possess industrial assets that allow them to manufacture veil for suspended acoustic applications. Owens Corning considers that, with the collaboration of customers, they would be able to expand their range of products to all categories of facers within […].

(42) According to the Commission's investigation, Owens Corning has a market share of [70-80]% in the supply of veil for acoustic applications in the EEA. Nevertheless, it is not clear whether Owens Corning would have the ability to engage in input foreclosure after the proposed transaction since competitor [competitor] is the EEA market leader in the wider veil market in the EEA (with a market share of [30-40]% compared to Owens Corning's [20-30]%) and thus has significant experience and expertise in selling veil in the EEA. Furthermore, as submitted by the notifying party, Johns Manville may be able to expand its veil product portfolio, […], to improve its product offering for acoustic applications. With respect to the differentiation in the use of veil between front and back uses, Paroc estimates that [purchases] from [supplier] are used on the front of the product, thereby indicating, from Paroc's perspective, that [supplier] has capabilities of producing veil to be used also on the front face of acoustic ceiling products.

(43) In any event, according to the results of the Commission's market investigation, it appears unlikely that Owens Corning would have incentives to engage in an input foreclosure strategy. It appears unlikely that the gains from such a strategy would outweigh its losses.

(a) While representing between [5-10] and [20-30]% of the input costs, the price of veil represents only up to [5-10]% of the end acoustic ceiling product price of Paroc[15].

(b) Paroc's market share on the downstream market for acoustic insulation is limited at [5-10]% in the EEA and reaches at most [20-30]% at the national level in Finland. Thus, Paroc's sales in the downstream markets which could benefit from a potential decrease of competition in the downstream markets are currently limited.

(c) [Discussion of likelihood of downstream expansion]

(d) Competitors producing acoustic ceilings are important veil customers of Owens Corning with [customer] accounting for [50-60]% of Owens Corning's total veil sales in volume ([40-50]% in value) and [customer] for [20-30]% (in volume and value) in the EEA. Those companies may be able to react to a potential input foreclosure strategy by switching veil purchases not affected by the input foreclosure strategy (such as veil not

15 Paroc's acoustic insulation sales amounted to EUR […] in the EEA in 2016 (p. 49 of the Form CO); Paroc's purchases of veil used in acoustic ceiling insulation amounted to a value of approximately EUR […] in 2016 (p.7 of the reply of the notifying party to RFI of 9 January 2018.)

used in acoustic applications) to alternative suppliers. Owens Corning's veil sales in the EEA amounted to EUR […] in 2016, thereof less than EUR […] was sold to Paroc. Owens Corning is unlikely to jeopardise its business relationship with [customer X and customer Y] generating EUR […] and EUR […] of revenue respectively to benefit its acoustic ceilings business generating EUR […] of revenue in 2016.

(e) Owens Corning's largest customer Rockwool indicated that they saw a risk that Owens Corning would engage in input foreclosure but explained that they did not consider input foreclosure as likely to occur.

(44) Furthermore, Saint-Gobain, the market leader in acoustic insulation in the EEA and in most of the national affected markets, is vertically integrated upstream in veil production and would therefore be unlikely to be significantly affected by a potential input foreclosure strategy. Because of Saint-Gobain's market position, the effects of a potential input foreclosure strategy would be limited overall as regards the market for acoustic insulation products. Saint-Gobain confirmed during the Commission's market investigation that it expected the overall impact of the proposed transaction on its business to be limited.

(45) Therefore, in light of the results of the market investigation and the evidence available to it, the Commission considers that even if the merged entity had the ability to engage in input foreclosure, it is unlikely that it would have sufficient incentives to do so. Thus, the Commission concludes that the proposed transaction would not give rise to competition concerns related to input foreclosure.

4.3.2.5. Conclusion on vertical effects

(46) In light of the considerations in recitals (28) to (45), the Commission concludes that the proposed transaction does not give rise to serious doubts about its compatibility with the internal market due to input or customer foreclosure concerns as regards veil and insulation materials, in particular acoustic ceilings.

5. CONCLUSION

(47) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This Decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

For the Commission

(Signed)
Margrethe VESTAGER
Member of the Commission